



Grant Thornton

Consolidated Financial Statements

Waterfront Development Corporation Limited

March 31, 2011

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Management statement on financial reporting

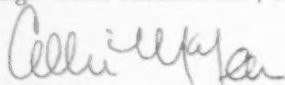
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To the Shareholder of
Waterfront Development Corporation Limited

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Management is also responsible to ensure that all information reproduced in the annual report is consistent with the statements. In carrying out its responsibilities, management maintains appropriate systems of internal controls designed to ensure that the financial information produced is relevant and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. A Finance, Audit and Risk Management Committee of non-management Directors is appointed by the Board to review the consolidated financial statements in detail with management and to report to the Directors prior to their approval of the consolidated financial statements for publication. The Directors have established standards of conduct for employees to prevent conflicts of interest and unauthorized disclosure of confidential information.

The auditors review the consolidated financial statements in detail and meet separately with both the Finance, Audit and Risk Management Committee and management to review their findings. Grant Thornton LLP, Chartered Accountants report directly to the shareholder.



Colin MacLean, President
June 21, 2011



John Holm, Chair - Board of Directors
June 21, 2011



Independent auditor's report

To the Shareholder of
Waterfront Development Corporation Limited

Grant Thornton LLP
Suite 1100
2000 Barrington Street
Halifax, NS
B3J 3K1
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We have audited the accompanying consolidated financial statements of Waterfront Development Corporation Limited (the "Corporation"), which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of earnings and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Halifax, Canada
June 21, 2011

Chartered Accountants

Waterfront Development Corporation Limited

Consolidated statement of earnings and retained earnings

Year ended March 31	2011	2010
Revenue		
Rents	\$ 3,661,975	\$ 3,783,624
Provincial grant revenue	294,400	294,400
Recoveries	176,838	153,183
Capital grant amortization	59,584	52,584
Interest income	43,122	40,911
Other income	19,264	32,529
	<u>4,255,183</u>	<u>4,357,231</u>
Property expenses		
Operating	1,176,343	1,033,998
Depreciation and amortization	637,830	539,669
Property taxes	27,041	13,853
	<u>1,841,214</u>	<u>1,587,520</u>
Income from property	<u>2,413,969</u>	<u>2,769,711</u>
Lunenburg real estate and development projects		
Revenue (page 13)	529,658	697,899
Expense (page 13)	<u>529,658</u>	<u>697,597</u>
	-	302
Tall Ships Nova Scotia Festival		
Revenue (page 13)	-	2,951,287
Expense (page 13)	<u>-</u>	<u>2,947,434</u>
	-	3,853
Income before other items	<u>2,413,969</u>	<u>2,773,866</u>
Corporate expenses		
Salaries, contracts and benefits	1,110,544	986,970
Professional fees		
Programs	270,341	433,128
Audit	24,677	25,555
Consulting	97,323	22,784
Legal fees	22,596	20,516
Office operations	189,725	198,517
Waterfront promotions and public relations	187,324	117,161
Directors' fees and expenses	48,515	58,392
Doubtful accounts (recovery)	<u>(4,337)</u>	<u>974</u>
	<u>1,946,708</u>	<u>1,863,997</u>
Loan interest	<u>7,624</u>	<u>2,841</u>
Net earnings	459,637	907,028
Retained earnings, beginning of year	11,500,300	10,343,272
Transfer from Special Events and Festivals Fund (note 7)	<u>-</u>	<u>250,000</u>
Retained earnings, end of year	<u>\$ 11,959,937</u>	<u>\$ 11,500,300</u>

See accompanying notes to the consolidated financial statements.

Waterfront Development Corporation Limited

Consolidated balance sheet

March 31

2011

2010

Assets

Current

Receivables	\$ 675,115	\$ 304,094
Capital grant receivable – Province of Nova Scotia	56,967	10,000
Prepays	<u>50,535</u>	<u>66,427</u>
	782,617	380,521

Real estate and development projects (note 3)	33,515,216	32,982,246
Lunenburg real estate (note 3)	4,128,580	4,219,618
Mortgages receivable	<u>1,100,622</u>	<u>873,617</u>
	\$ <u>39,527,035</u>	\$ <u>38,456,002</u>

Liabilities

Current

Bank indebtedness	\$ 300,087	\$ 489,393
Loans payable (note 5 (ii))	1,970,647	625,000
Payables and accruals	1,204,556	1,483,293
Marketing payable	60,377	28,168
Deferred revenue (note 4)	<u>210,000</u>	<u>296,864</u>
	3,745,667	2,922,718

Deferred capital grant related to real estate and development projects	1,557,047	1,559,664
Deferred revenue (note 4)	3,148,903	2,446,153
Deferred contribution related to Lunenburg real estate and development projects (note 12)	4,128,580	4,219,619
Deferred proceeds on sale of property (note 11)	1,239,072	964,072
Loans payable (note 5 (ii))	-	1,095,647
	<u>13,819,269</u>	<u>13,207,873</u>

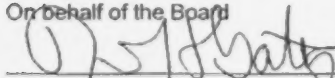
Shareholder's equity

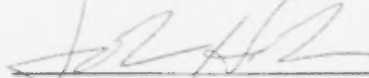
Capital stock (note 6)	3	3
Contributed surplus	13,747,826	13,747,826
Retained earnings	<u>11,959,937</u>	<u>11,500,300</u>
	<u>25,707,766</u>	<u>25,248,129</u>
	\$ <u>39,527,035</u>	\$ <u>38,456,002</u>

Commitments (note 9)

Contingency (note 11)

On behalf of the Board

 Director

 Director

See accompanying notes to the consolidated financial statements

Waterfront Development Corporation Limited **Consolidated statement of cash flows**

Year ended March 31

2011

2010

Increase (decrease) in cash and cash equivalents

Operating		
Net earnings before appropriations	\$ 459,637	\$ 907,028
Depreciation and amortization	637,830	539,669
Capital grant amortization	<u>(59,584)</u>	<u>(52,584)</u>
	1,037,883	1,394,113
Change in non-cash operating working capital (note 8)	<u>(648,624)</u>	<u>1,004,520</u>
	<u>389,259</u>	<u>2,398,633</u>
Financing		
Increase in mortgage receivable	(227,005)	(40,433)
Increase in loans payable	<u>250,000</u>	<u>500,000</u>
	<u>22,995</u>	<u>459,567</u>
Investing		
Purchase of property and equipment	(1,170,801)	(2,462,448)
Deferred revenue	615,886	(727,179)
Deferred capital grant	56,967	10,000
Deferred proceeds on the sale of property	<u>275,000</u>	<u>-</u>
	<u>(222,948)</u>	<u>(3,179,627)</u>
Net increase (decrease) in cash and cash equivalents	189,306	(321,427)
Cash and cash equivalents, net of bank indebtedness		
Beginning of year	<u>(489,393)</u>	<u>(167,966)</u>
End of year	\$ <u>(300,087)</u>	\$ <u>(489,393)</u>

See accompanying notes to the consolidated financial statements.

Waterfront Development Corporation Limited

Notes to the consolidated financial statements

March 31, 2011

1. Nature of operations

The Corporation was declared a Provincial Crown Corporation by order of His Honour the Lieutenant Governor on March 30, 1976.

The Corporation's mission is to service as champion of a dynamic vision and to plan, coordinate, promote and develop properties, events and activities on designated waterfronts around Halifax Harbour and other locations as determined by the shareholder as detailed in the order in Council No. 2005-373 dated August 19, 2005.

On September 20, 2005, the Corporation purchased significant holdings in the Town of Lunenburg, as well as a numbered company, 3104102 N.S. Limited, which held additional properties in the Town. This was done in cooperation with the Province to protect the working waterfront in Lunenburg.

2. Summary of significant accounting policies

Basis of accounting

These financial statements are prepared on a consolidated basis. As such, the financial position and results of operations of the 100% owned subsidiary, 3104102 N.S. Limited, are consolidated into these financial statements.

Revenue recognition

Rent and recovery revenues are recorded on an accrual basis as earned.

Revenue generated as a result of property development is applied as a reduction in the cost. The Corporation receives amounts from third parties for dumping fill on a Corporation property. These amounts have been offset against accumulated development costs related to the property and the excess has been recorded as deferred revenue.

Government assistance for capital projects is accounted for as a deferred capital grant. The grant is amortized and taken into income at the same rate as amortization expense on the assets to which the grant relates.

Income taxes

As a Provincial Crown Corporation, the Corporation is exempt from income taxes under the provisions of the Income Tax Act.

Financial instruments

Financial assets are classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are classified as either held for trading or other financial liability. All financial instruments, including any derivatives, are subsequently measured on the balance sheet at fair value, except for loans and receivables, held to maturity financial assets and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and liabilities classified as held for trading are recognized in net earnings. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, or credit risks arising from financial instruments.

Waterfront Development Corporation Limited

Notes to the consolidated financial statements

March 31, 2011

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

The Corporation has classified its financial instruments and liabilities as follows:

<u>Financial asset/liability</u>	<u>Classification</u>	<u>Subsequent measurement</u>
Cash and cash equivalents, on hand	Held for trading	Fair value
Receivables	Loans and receivables	Amortized costs
Mortgage receivable	Loans and receivables	Amortized costs
Payables and accruals	Other liabilities	Effective interest method
Loans payable	Other liabilities	Effective interest method
Marketing payable	Other liabilities	Effective interest method

Depreciation

All expenditures directly related to acquisition, renovation and development are included in the cost of real estate.

Building and equipment

Assets are depreciated on a straight line basis over their useful life, but not greater than 50 years, at rates between 2% and 33.3% per annum.

Long-term lease

The cost of the lease referred to in note 3 is amortized over its term.

Real estate and development projects

On an annual basis, the Corporation reviews the carrying amounts of properties held and used in the fulfilling of its mandate. This includes both revenue producing properties, as well as properties held for the greater public interest.

If a change in circumstances or occurrence of particular events indicates that such carrying values may be impaired, the amount of the loss is determined by deducting the asset's fair value (as determined by an independent appraisal or comparison to objective market values of comparable properties) from its carrying value.

There are ongoing negotiations for potential development projects on the Bedford, Dartmouth, Halifax and Lunenburg waterfronts. The outcome of these negotiations and the possible financial impact on fair value of the existing land and buildings is indeterminable at this time.

Use of estimates

In preparing the Corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

Cash and cash equivalents and bank indebtedness

Cash and cash equivalents are comprised of cash on hand, cash held in banks and bank overdrafts.

Waterfront Development Corporation Limited

Notes to the consolidated financial statements

March 31, 2011

3. Real estate and development projects		2011		2010	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>	
Land	\$ 20,079,191	\$ -	\$ 20,079,191	\$ 20,075,191	
Buildings	9,689,690	5,129,201	4,560,489	4,541,502	
Wharves and walkways	8,567,858	1,517,590	7,050,268	6,891,909	
Equipment	1,570,799	704,564	866,235	686,041	
Paving	435,016	183,021	251,995	267,224	
Capital lease	1,704,472	1,277,625	426,847	462,376	
Monuments	331,511	51,320	280,191	58,003	
	<u>\$ 42,378,537</u>	<u>\$ 8,863,321</u>	<u>\$ 33,515,216</u>	<u>\$ 32,982,246</u>	
Lunenburg (note 12)	<u>\$ 4,365,742</u>	<u>\$ 237,162</u>	<u>\$ 4,128,580</u>	<u>\$ 4,219,618</u>	

The capital lease is a prepaid long term lease from the Federal Department of Public Works for a term of 45 years from 1977, with three ten-year renewal options.

4.	Deferred revenue	2011	2010
Current			
	Deposits for project developments and programs	\$ 210,000	\$ 296,864
Long-term			
	Bedford infill (note 5)	\$ 2,866,926	\$ 2,152,785
	Amount for development of Halifax waterfront (note 10 (iii))	281,977	293,368
		\$ 3,148,903	\$ 2,446,153

The Corporation receives amounts from third parties for dumping fill in Bedford. The intent is to develop the Bedford infill property and utilize this long-term deferred revenue in that development over future periods.

Waterfront Development Corporation Limited

Notes to the consolidated financial statements

March 31, 2011

5. Credit facility

- (i) In fiscal 2008, the Corporation entered into a credit facility agreement with the Royal Bank of Canada. The facility provides a \$6 million revolving operating line at RBC prime rate less 1.125%. The facility is a five year agreement expiring in June 2012 and is guaranteed by the Province of Nova Scotia.

	<u>2011</u>	<u>2010</u>
(ii) Loans payable		
Nova Scotia Department of Economic and Rural Development and Tourism non-interest bearing	\$ <u>1,095,647</u>	\$ <u>1,095,647</u>

The loan from the Nova Scotia Department of Economic and Rural Development and Tourism is secured by a charge over specific real property. Repayment is dependent on the timing of sale of the secured asset. The secured asset was sold in March 2008 and payment made to the Corporation by way of a deposit and mortgage on the property. Due to expected timing of the mortgage repayment and certain other terms of the purchase and sale agreement, repayment of this loan has been deferred. Full mortgage proceeds are anticipated to be received in fiscal 2012, at which time the non-interest bearing loan from the Province will be repaid in full.

	<u>2011</u>	<u>2010</u>
Demand loan	\$ 875,000	\$ 625,000
Nova Scotia Department of Economic and Rural Development and Tourism	<u>1,095,647</u>	<u>1,095,647</u>
	\$ <u>1,970,647</u>	\$ <u>1,720,647</u>

Cash flow resulting from the following has been used to temporarily repay the revolving operating line loan. If segregated funding was required or costs incurred to finance related developments and activities, the total debt would be increased from \$1,970,647 to \$4,837,573 through additional borrowings and other available funding as illustrated below:

	<u>2011</u>	<u>2010</u>
Demand loan	\$ 875,000	\$ 625,000
Bedford infill (note 4)	2,866,926	2,152,785
Special Events and Festivals Fund (note 7)	<u>-</u>	<u>250,000</u>
	3,741,926	3,027,785
Nova Scotia Department of Economic and Rural Development and Tourism	<u>1,095,647</u>	<u>1,095,647</u>
	\$ <u>4,837,573</u>	\$ <u>4,123,432</u>

6. Capital stock	<u>2011</u>	<u>2010</u>
Authorized:		
5,000 shares without nominal or par value		
Issued:		
3 shares	\$ <u>3</u>	\$ <u>3</u>

The shares are held in trust by one representative of the Province for the Queen in Right of the Province of Nova Scotia.

Waterfront Development Corporation Limited

Notes to the consolidated financial statements

March 31, 2011

7. Special Events and Festivals Fund

The Special Events and Festivals Fund was wound up in 2010, with the balance of \$250,000 transferred to retained earnings.

8. Supplemental cash flow information

	<u>2011</u>	<u>2010</u>
Change in non-cash operating working capital		
Receivables	\$ (417,988)	\$ 1,273,338
Prepays	15,892	(31,663)
Deferred costs	-	276,210
Payables and accruals	(278,737)	(515,930)
Marketing payable	<u>32,209</u>	<u>2,565</u>
	\$ <u>(648,624)</u>	\$ <u>1,004,520</u>
Interest paid	\$ <u>7,624</u>	\$ <u>2,841</u>

9. Commitments

- (i) The Corporation has entered into an agreement with an existing combined residential and commercial building on the Halifax waterfront to allow partial early conversion of the complex into condominium units. The Corporation will receive total compensation of \$500,000 over a five year period, the timing of payments being contingent on the sale of condo units. Payment will be either by way of direct cash payment to the Corporation or by the construction of amenities on the Halifax waterfront by the vendor of the condo units. The Corporation has committed to use the direct cash compensation received on the construction of amenities on the Halifax waterfront. In the current fiscal year, the Corporation has recognized \$8,952 as deferred revenue. The Corporation has cumulatively recognized \$302,321 as deferred revenue and expended \$20,344 on amenities for a net deferred balance of \$281,977 (refer to note 4).
- (ii) During 2008, the Corporation sold land in Bedford. Under the terms of the purchase and sale agreement, the Corporation is required to provide a public walkway on a portion of the anticipated development. Management's estimate of this cost is approximately \$164,900. This commitment would be subject to capital budget approval by the Province and funded as any other capital item, that is, either internally through cash flow or credit facility, or through a capital grant. The timing of this commitment is uncertain.

10. Employee pension plan

The Corporation is a participant in a Multi-Employer Pension Plan, the Nova Scotia Public Service Superannuation Plan.

Any unfunded liability of the Plan applicable to the Corporation is not determinable and should not be significant as its participation includes only thirteen employees.

Waterfront Development Corporation Limited

Notes to the consolidated financial statements

March 31, 2011

11. Contingency

In 2008, the Corporation sold land in Bedford. Under the terms of the purchase and sale agreement (section 5.2), the sale was contingent on the purchaser commencing development within five years of the closing date (March 2008). Should development not have commenced within this time, the Corporation would repurchase the land for approximately \$1.07 million. Construction was underway at March 31, 2011 and it is therefore anticipated the purchaser will meet the conditions of the purchase and sale agreement.

12. Lunenburg investment

In fiscal 2006 the Corporation acquired real estate properties in the Town of Lunenburg by way of a 100% share purchase of 3104102 N.S. Limited and direct asset purchases.

The Province provides an annual operating grant to cover any shortfall between revenues and expenditures.

The Lunenburg assets consist of land, buildings and wharves. These assets have been shown as a separate line item within the Real Estate and Development Projects schedule in note 3 to the financial statements and on the balance sheet. This is to recognize these assets as a unique group whose title with the Corporation may not necessarily be long term in nature, depending on decisions of the Province.

13. Related party transactions

During the year, the Corporation transacted business with various Departments and Crown Corporations of the Province of Nova Scotia. These transactions included rent charged to these entities for use of the Corporation's assets. Other revenues received from related parties include operating grants. Various expenditures were incurred by the Corporation for transactions with these same related parties for payroll benefits, consulting and legal services.

14. Capital management

The Corporation's objectives when managing capital are:

1. To maintain financial strength through sound stewardship of core assets and long-term development and financial planning such that it is able to continue designing and developing great waterfronts; and
2. To ensure a return on and use of public assets that strikes a balance between allowing the Corporation to be self sufficient while providing for public enjoyment of their waterfronts.

The above objectives are considered in annual budgets and property development planning.

Waterfront Development Corporation Limited
Notes to the consolidated financial statements

March 31, 2011

15. Comparative figures

Certain of the comparative figures for 2010 have been reclassified to conform with the financial statement presentation adopted for 2011.

Waterfront Development Corporation Limited
Schedule of revenue and expense for the
Lunenburg Real Estate and Development Projects

Year ended March 31 2011 2010

Revenue		
Rents	\$ 349,706	\$ 235,114
Operating grant	127,830	410,000
Capital grant amortization	<u>52,122</u>	<u>52,785</u>
	<u>529,658</u>	<u>697,899</u>
Expense		
Administration	806	470
Depreciation	52,122	52,785
Professional fees	54,742	35,512
Operating	<u>421,988</u>	<u>608,830</u>
	<u>529,658</u>	<u>697,597</u>
Excess of revenue over expenditures	\$ <u>-</u>	\$ <u>302</u>

Waterfront Development Corporation Limited
Schedule of revenue and expense for the
Tall Ships Nova Scotia Festival

Year ended March 31 2011 2010

Revenue		
Private sponsorship	\$ -	\$ 488,903
Government grant and sponsorships	-	2,044,580
Boarding pass sales and other	<u>-</u>	<u>417,804</u>
	<u>-</u>	<u>2,951,287</u>
Expense		
Administration and management	-	473,844
ASTA fees	-	172,628
Marketing	-	321,253
Municipal services	-	296,679
Programming	-	257,515
Ship fees	-	725,832
Venue operations	<u>-</u>	<u>699,683</u>
	<u>-</u>	<u>2,947,434</u>
Excess of revenue over expenditures	\$ <u>-</u>	\$ <u>3,853</u>